

INTERIM REPORT
OF
THE U. P. LOCAL BODIES
GRANTS-IN-AID COMMITTEE

*(Appointed under Government Resolution No. 4740/IX—62-1948,
dated September 22, 1948)*



ALLAHABAD:
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TABLE OF CONTENTS

	<i>Page</i>
Introduction	1
Interim Report of the Committee	4
APPENDICES	
APPENDIX I—Extracts from the speech of Shri G. K. Gokhale	28
APPENDIX II—A note by Dr. B. M. Sharma on the necessity of allocating to local bodies enough sources of revenue under the new constitution	32
APPENDIX III—Extract from the speech of Shri R. K. Sidhwa in the Constituent Assembly during the budget session of March, 1948	34
APPENDIX IV—Extract from observations made by Shri S. N. Modi, I.C.S. (Retired), as member of the Industrial Tribunal, in the Award passed on the dispute between the Howrah Municipality and its employees	35
APPENDIX V—Extracts from "Public Finance" by Professor K. K. Sharma.	36
APPENDIX VI—Extracts from "Local Finance in India" by Gyan Chand.	37
APPENDIX VII—Extracts from "Federal Finance in Peace and War" by G. Findlay Shirras	39
APPENDIX VIII—Extracts from the "Report of the Royal Commission upon Decentralization in India"—(Hobhouse Commission), 1907.	40
APPENDIX IX—Extracts from the "Report of the Indian Taxation Enquiry Committee" (Tod hunter Committee), 1924-25	41
APPENDIX X—Extracts from "Memorandum by the Hon'ble Sardar Jogen- dra Singh, Member, Indian Taxation Enquiry Committee— (Tod hunter Committee)	45
APPENDIX XI—Extracts from the "Report of the District Finance Com- mittee" (Pim Committee), 1927	46
APPENDIX XII—Extracts from the "Report (Part II) of the Local Self- Government Committee" (1938)	48

INTERIM REPORT OF THE U. P. LOCAL BODIES GRANTS-IN-AID COMMITTEE

INTRODUCTION

As a result of several representations, particularly from certain members of the United Provinces Legislative Assembly, asking for revision of the present system of grants-in-aid to local bodies which have long suffered from chronic insufficiency of funds resulting in a drastic curtailment of their useful activities, the United Provinces Government have, under their resolution no. 4740/IX—62-48, dated September 22, 1948 (Local Self-Government Department), appointed a Local Bodies Grants-in-Aid Committee to go into the question of grants-in-aid, to examine it in all its aspects, and considering the present financial position of the local bodies, to suggest principles for the allocation of Government grants-in-aid to them.

2. *Constitution of the Committee*—The constitution of the Committee is as follows :

Chairman.

Shri Har Govind Singh, Parliamentary Secretary to the Hon'ble Minister for Revenue and Agriculture.

Members:

- (1) Shri Venkatesh Narayan Tewari, M.L.A., Councillors' Residence, Lucknow.
- (2) Shri Raghubir Sahai, M.L.A., Civil Lines, Budaun.
- (3) Shri Girdhar Gopal, President, District Board, Etah.
- (4) Professor Krishna Chandra, B.Sc., Chairman, Municipal Board, Vrindaban.
- (5) Lieut. M. Sultan Alam Khan, M.L.A., Kaimganj, district Farrukhabad.
- (6) The Secretary to Government, United Provinces, Finance Department, or his nominee.
- (7) Dr. B. M. Sharma, M.A., B.Sc., P.H.D., D.LITT., Reader in Political Science and Teacher-in-Charge, Diploma in Public Administration Class, University of Lucknow.
- (8) Shri Saiyed Hasan Zaheer, I. C.S., Commissioner, Allahabad Division.

(9) The Chief Engineer, Public Health Engineering Department, U. P.

(10) Shri B. M. Vyas, retired Executive Officer, Municipal Board, Allahabad.

(11) Shri N. P. Chatterji, M.A., Under Secretary to Government, U.P., Local Self-Government Department (to act as Secretary to the Committee also).

3. *Co-option of members*—The Committee was further authorized by Government to co-opt, if necessary, any persons as members of the Committee. Accordingly, the following additional members were co-opted on the Committee :

(i) Shri C. L. Sahney, Director of Education, U.P.

(ii) Shri R. N. Roy, M.A., LL.B., Examiner, Local Fund Accounts, U. P.

(iii) Shri A. C. Mukerji, Chief Engineer, Public Works Department, Buildings and Roads Branch, U. P.

(iv) Dr. A. C. Banerjee, Director, Medical and Health Services, U. P.

4. *Terms of reference*—The terms of reference of the Committee are as follows :

(i) To suggest a basis which should be adopted by Government in giving grants-in-aid to local bodies—

(a) generally ; and

(b) in respect of specific schemes.

(ii) To suggest ways and means for enhancing the resources of local bodies.

5. *Meetings of the Committee*—The first meeting of the U. P. Local Bodies Grants-in-Aid Committee was held on October 22, 1948. At that meeting a Sub-Committee of the following members was formed to draw up a questionnaire :

(i) Shri V. N. Tewari Chairman.

(ii) Shri B. M. Vyas Member.

(iii) Shri N. P. Chatterji Do.

(iv) Prof. Krishna Chandra Do.

(v) Dr. B. M. Sharma Do.

The draft questionnaire was considered by the Sub-Committee on October 29, 1948, and circulated to other members for opinion and suggestions, if any. The questionnaire was finally issued on November

29, 1948. Subsequently, all local bodies in the Province were also addressed to furnish certain information and statistics required for the use of the Committee.

In the meantime, Shri N. P. Chatterji, Secretary of the Committee, submitted a note, at the instance of Shri V. N. Tewari, for the information of the members indicating the limitations imposed by certain provisions of the Government of India Act, 1935—also retained in the Draft Constitution of India—on the taxation power of local bodies. To consider this note a special meeting of the Committee was held on April 6 and 7, 1949. The Committee, after discussing the various aspects of the problem—constitutional, legal and financial—generally accepted the proposals contained in the Secretary's note and decided that the Provincial Government should be requested to take immediate steps to move an amendment to the Draft Constitution in the next session of the Constituent Assembly with special reference to Articles 256, 257 and 264, read with Article 217 and Schedule VII of the Draft Constitution, to remove the restrictions contemplated therein with regard to the taxation powers of local authorities. To expedite the submission of the Committee's recommendations regarding such amendment a Sub-Committee was formed consisting of the following members :

- | | | |
|---------------------------|----|-----------|
| (1) Shri Har Govind Singh | .. | Chairman. |
| (2) Shri N. P. Chatterji | .. | Member. |
| (3) Shri B. M. Vyas | .. | Do. |
| (4) Shri V. N. Tewari | .. | Do. |
| (5) Prof. Krishna Chandra | .. | Do. |

The Committee also authorized the Chairman (Shri Hargovind Singh) to submit an interim report to Government without further circulation to other members of the main Committee.

6. The above Sub-Committee met on April 26, 1949, to discuss the matter and to make its recommendations. At this meeting a draft interim report, submitted by the Secretary, was approved subject to certain minor alterations. The Chairman was requested to submit the Report to the Hon'ble Premier for favour of approval and further necessary action.

The views and recommendations of the Committee on the subject are contained in the following pages.

HARGOVIND SINGH,
Chairman.

INTERIM REPORT OF THE COMMITTEE

It would scarcely be a hyperbole to say that neither the Government of India nor the Government of the Province have been paying to local authorities the attention they merit.
General indifference of Central and Provincial Governments towards local bodies.
 For all intents and purposes they still stand today where they were left by the late Marquis of Ripon about 67 years ago. It is happy augury indeed, that the importance of local self-governing institutions is gradually being realized and public opinion is asserting itself for their resuscitation. In the United Provinces, the Committee is glad to note that the present Ministry has introduced rapid and radical changes in the administration of local bodies. The amendments recently made in the U. P. District Boards Act, 1922, the U. P. Municipalities Act, 1916, and the U. P. Town Areas Act, 1914, indicate a determined effort to stimulate the growth of really effective, popular and autonomous bodies all over the Province. The Panchayat Raj Scheme, which is perhaps the boldest experiment in the realm of democracy, might well be the pride of any Government in any country, for no State can be truly democratic unless it has in every centre of its population a local governing body as thoroughly democratic in its constitution as any house of Parliament.

2. In recent years there has been a marked tendency in the direction of entrusting to the administration of local authorities many functions which were previously claimed to be the monopoly of the State.
Functions of local authorities.
 Local governance can no longer be regarded as a stupefying drug to keep down the national aspirations of the people. It is no more an experiment and it is certainly not a pantomime. Local government is an epitome of National Government and they are inseparable. Local bodies must play an intimate and vital role in the development of the country and it is through the local bodies that the National Government must fulfil its missions and ideals.

3. But this inevitably leads us to the most crucial problem facing local bodies in India, and that is the problem of finance. While the local authorities have been entrusted *inter alia* with the duties of construction, upkeep and laying of roads and streets, preservation of public health—particularly with reference to sanitation,

Inadequacy of resources of local bodies for their functions.

drainage, water-supply, provision of medical relief, vaccination, and measures against epidemics—housing, town-planning, electrification and education, the resources at their disposal are pitifully meagre. Even a casual glance at the budget of any local body would reveal most conclusively how absurdly unequal is the doleful character of its resources to the proper performance of the functions entrusted to it. No wonder that only 0·5 per cent. of the towns of India have got electricity and filtered water-supply and even a smaller percentage have adequate drainage facilities. In the United Provinces there are only 34 cities having electric supply, and the number of towns having waterworks and drainage system is only 28 and 25, respectively. There are thousands of villages in this country where ordinary drinking water is a crying want. The total number of hospitals and dispensaries in the country is less than 8,000 and millions of people die every year of disease for want of proper and timely medical aid. Only 12 per cent. of the people are literate and millions and millions of people are still wallowing in the mire of ignorance. It is undoubtedly a grim spectacle and it is from this vale of despond that the country will have to be raised aloft. There is no dearth of hope, enthusiasm, zeal or goodwill in this country. The only bottle-neck is inadequacy of finance and if it is desired that local bodies should render really effective service within their spheres of administration, active measures should be adopted to make them financially self-sufficient.

4. Ever since the year 1912 when the late Shri G. K. Gokhale moved a resolution in the Imperial Legislative Council urging that Government should appoint a Committee to enquire into the financial problems of local bodies and to suggest how their finances could be made commensurate with the functions entrusted to them, many a committee has been appointed and many a scheme formulated but the net result has not been anything worth mentioning. The Royal Commission upon Decentralization (1908) (commonly known as the "Hobhouse Commission") was the first to probe into the problems of local bodies and opinions gathered by the Commission unanimously pointed towards the utter inadequacy of resources at the disposal of local bodies. Eminent personalities, like Sir Herbert Risley, Sir John Jenkins and Sir James Meston, most emphatically asserted that unless the resources of local bodies were largely

augmented all hopes of their being a success in this country should be abandoned. But in spite of the efforts of the Way and Aikman Committee (1907), the Indian Taxation Enquiry Committee (1924-25), the District Board Finance Committee (1927-30) (commonly known as the "Pim Committee"), the Local Self-Government Committee (1938), the Kale Committee of Bombay (1930), and the devoted labours of Sir Ivo Elliot in the United Provinces, the financial position of local bodies all over the country still remain as stagnant as ever. The Committee hopes that in the changed political environment of the country, Government would readily appreciate the difficulties of local bodies and take immediate steps to remove all obstacles blocking their path of progress and development. It is one of the emergent duties of Government to infuse strength and vitality in our local self-governing institutions so that they may ensure what Sydney Webb calls the "National Minimum," through which the country as a whole must prosper.

5. Incidentally, it may be observed that the Government of the United Provinces have, of late, initiated a few salutary measures to augment the revenues of local authorities, for instance, by making the levy of enhanced local rates compulsory for district boards, by taking over powers to introduce additional taxation in municipalities, by authorizing district and municipal boards to raise loans in the open market and by enlarging the taxation powers of town area committees. The Committee welcomes and appreciates the above reforms, but is firmly of opinion that even these enhanced resources are in no way commensurate with the functions and liabilities of local bodies and will prove quite inadequate for their growing needs. The task before this Committee is, therefore, to explore the precise method by which local bodies in the United Provinces may be put on the proper gear. The entire problem hinges on the question of rehabilitation of finances. The financial well-being of local bodies can be secured in two ways, namely :

- (1) by widening their powers of taxation, and
- (2) by giving them liberal subsidies or grants-in-aid.

We have been, for some time past, studying the various systems of local taxation and grants-in-aid prevailing in the countries of the West with a view to see in what manner they can be adapted to suit the conditions here and we shall record our views thereon separately at a later

stage. Suffice it to say now that while throughout Europe the functions and activities of local bodies have been expanded, linked up and co-ordinated with those of the State and while a deliberate attempt has been made to secure a proper juxtaposition of the taxes to be levied by the State and the local institution there has been no such move in our country. The theory underlying all assignments of revenues and National Exchequer grants is that such subsidies are set apart for "beneficiary purposes" which are the obligatory functions of the State. The French system of "*centimes additionnel*" and of Extraordinary Centimes, followed with minor variation in Italy, Spain and Switzerland, is based on the theory that local bodies are full-fledged national institutions and their functions and duties are national liabilities. Once the status of local bodies is thus admitted, a rational co-ordination in the sphere of taxes, emerges like a corollary.

6. In India also, the Committee feels that local bodies should be granted the status they deserve and active steps should be initiated to co-ordinate their finances to their requirements which in other words are national liabilities. The possibilities of a better co-ordination and juxtaposition of the taxes to be levied by the three different authorities, namely, the Central, the Provincial and the Local, will necessarily have to be scrutinized if the resources of local bodies are to correspond to their needs according to the services to be rendered and in proportion to their ability to meet such liabilities. With the intricate details of the question we shall deal later.

7. While examining the question in its broader perspective, we have, however, stumbled on certain handicaps imposed on local bodies by the Government of India Act, 1935, which have had an adverse effect on their finances and we find that the same are sought to be perpetuated in the Draft Constitution of Free India which is now on the anvil. These provisions of the Draft Constitution, if allowed to continue, would have the effect of seriously restricting the taxation powers of local bodies and cramping their growth and development and we feel it our bounden duty to put forward our views on the matter so that they may be considered by the framers of the Constitution. Since the Constituent Assembly is going to meet shortly, we are submitting this interim report to Government so that necessary action may be taken before it is too late and past recompense.

8. Prior to the passing of the Government of India Act, 1935, the imposition of taxes by a local authority was governed by the provisions of rule 3 of the Scheduled Taxes Rules, framed under clause (a) of section 80-A(3) of the Government of India Act, 1919, and Schedule II thereto, according to which the Provincial Legislature was empowered to make laws authorizing any local body to levy the following taxes :

Taxation powers of local
bodies before Government
of India Act, 1935.

- (1) A toll.
- (2) A tax on land or land values.
- (3) A tax on vehicles or boats.
- (4) A tax on buildings.
- (5) A tax on animals.
- (6) A tax on menials and domestic servants.
- (7) An octroi.
- (8) A terminal tax on goods imported into or exported from a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before July 6, 1917.
- (9) A tax on trades, professions and callings.
- (10) A tax on private markets.
- (11) A tax imposed in return for services rendered, such as :
 - (a) a water rate,
 - (b) a lighting rate,
 - (c) a scavenging, sanitary or sewage rate,
 - (d) a drainage tax,
 - (e) fees for the use of markets and other public conveniences.

9. It may be mentioned that the taxes which municipal boards were then authorized to impose under section 128 of the U. P. Municipalities Act, 1916, were these enumerated below :

Taxes leviable by municipal
Boards under section 128 of the
United Provinces Municipalities
Act, 1916, before April 1, 1937.

- (i) a tax on the annual value of buildings or lands or of both ;
- (ii) a tax on trades and callings carried on within the municipal limits and deriving special advantages from, or imposing special burdens on, municipal services ;
- (iii) a tax on trades, callings and vocations including all employments remunerated by salary or fees ;
- (iv) a tax on vehicles and other conveyances plying for hire

or kept within the municipality or on boats moored therein ;

(v) a tax on dogs kept within the municipality ;

(vi) a tax on animals used for riding, driving, draught or burden, when kept within the municipality ;

(vii) a toll on vehicles and other conveyances, animals and laden coolies entering the municipality ;

(viii) an octroi on goods or animals brought within the municipality for consumption or use therein ;

(ix) a tax on inhabitants assessed according to their circumstances and property ;

(x) a water tax on the annual value of buildings or lands or of both ;

(xi) a scavenging tax ;

(xii) a tax for the cleansing of latrines and privies ;

(xiii) a tax on goods imported into or exported from any municipality in which an octroi was in force on the 6th day of July, 1917, or with the previous sanction of the Governor General in Council, any other municipality ;

(xiii-A) any other tax which under rules made under clause (a) of section 80A, sub-section (3) of the Government of India Act a local authority may be authorized to impose by any law made by the local legislature without the previous sanction of the Governor General ;

(xiv) any tax not authorized under clauses (i) to (xiii-A) to the proposals for imposing which sanction has been given by the local Government and confirmed by the Governor General in Council under sub-section (3) of section 133, Municipalities Act.

10. Further, the taxes which district boards were then empowered to levy under section 108 of the United Provinces District Boards Act, 1922, were the same as those mentioned in the existing clauses (a) and (b) of that section, namely—

Taxes leviable by district boards under section 108 of the United Provinces District Boards Act, 1922, before April 1, 1937.

(a) a local rate under section 3 of the United Provinces Local Rates Act, 1914, as modified by this Act (i.e. District Boards Act) ;

(b) a tax on persons assessed according to their circumstances and property in accordance with section 114, District Boards Act.

11. Under the Government of India Act, 1935, the position in respect of many of the taxes levied by municipal and district boards was considerably altered. The Act provided for distribution of legislative powers between the Central and the Provincial Governments, and the Provincial Legislature was precluded from making laws about any matter falling within the jurisdiction of the Central Legislature. The taxes affected mainly were the terminal tax, the pilgrim tax, the tax on trades, callings and professions, and the tax on circumstances and property. Besides, the said Act also provided for the exemption of all Central Government property including Railway property, from provincial and local taxation except in so far as any Central Legislation provided otherwise. It may be mentioned that almost all the provisions of the Government of India Act in respect of these matters have been incorporated in the Draft Constitution of India and therefore when the latter comes into force, the position of local taxation will be in no way better than at present.

12. The relevant sections of the Government of India Act, 1935, affecting the powers of our local bodies in the matter of taxation are 100, 104, 137, 142A, 143 and 154, which should be read with the following items of list I (Federal Legislative List) and of List II (Provincial Legislative List) in the Seventh Schedule to the Act :

Provisions of Government of India Act affecting local taxation.

List I

- 54. Taxes on income other than agricultural income.
- 58. Terminal taxes on goods or passengers carried by railway or air ; taxes on railway fares and freights.

List II

- 41. Taxes on agricultural income.
- 42. Taxes on lands and buildings, hearths and windows.
- 46. Taxes on professions, trades, callings and employments, subject, however, to the provisions of section one hundred and forty-two (A) of this Act (i.e. Government of India Act, 1935).
- 47. Taxes on animals and boats.
- 48A. Taxes on vehicles suitable for use on roads, whether mechanically propelled or not, including tramcars.

49. Cesses on the entry of goods into a local area for consumption, use or sale therein.

53. Tolls.

13. The corresponding articles of the Draft Constitution of India are 216, 223, 250, 256, 257 and 264 read with items 83 and 84 of list

Provisions of Draft I (Union List), and items 51, 53, 56, 57, 59, 61
Constitution of India and 63 of list II (State list) in the Seventh
affecting local taxation. Schedule thereto.

Further, there is a new item 91 in the Union List, which is reproduced below :

“91. Any other matter not enumerated in list II or III including any tax not mentioned in either of these lists.”

This item read with article 223 will vitally affect some of the local taxes, namely the “residual taxes” when the new Constitution comes into force, as will be explained later.

14. The above provisions in the Act of 1935 necessitated the adaptation of section 128 of the Municipalities Act to bring it in conformity with them. Accordingly, under the Government of India (Adaptation of Indian Laws) Order, 1937, clause (xiiiA) of section 128(1) was omitted and for clause

(xiv) the following was substituted :

(xiv) any other tax which the Provincial Legislature has power to impose in the Province under the Government of India Act, 1935.

Further, after sub-section (2) of section 128 a new sub-section section (3) was added as below :

“(3) nothing in this section shall authorize the imposition of any tax which the Provincial Legislature has not power to impose in the Province under the Government of India Act, 1935 ;

Provided that a board which immediately before the commencement of Part III of the said Act was lawfully levying any such tax under this section as then in force, may continue to levy that tax until provision to the contrary is made by the Central Legislature.”

15. As a result, after April 1, 1937, municipal boards were deprived of the taxes which were leviable under clause (xiii-A) but now are not covered by any of the entries in the Provincial list, and also of the terminal tax on rail-borne goods and pilgrim tax on railway passengers, previously leviable under clauses (xiii) and (xiv), respectively. Further, the taxes on trades and professions, etc., leviable under clauses (ii) and (iii) were limited as to the total amount payable in respect of any one person to a maximum of Rs. 50 per annum under section 142A of the Government of India Act, which also imposed similar restrictions with regard to the circumstances and property tax leviable by municipal boards under section 128 (1) (ix) of the Municipalities Act and by district boards under section 108 (b) of the District Boards Act. The position regarding each of the major taxes affected is explained below.

16. Under section 137 of the Government of India Act terminal taxes on goods and passengers carried by railway can be levied by the Central Government alone, who should distribute the net proceeds thereof among the provinces concerned in accordance with certain principles to be formulated by Central Legislation. But in the case of municipalities in which any such taxes were already in force before April 1, 1937, the boards concerned can continue to levy the same without increasing the rates or widening the range of taxation, by virtue of section 143 (2) of the Government of India Act, until provision to the contrary is made by the Central Legislature. However, on the principle that the greater includes the less, these boards have the power to reduce the rates or range of the terminal taxes in question. It may be mentioned that the above provisions of sections 137 and 143 (2) of the Government of India Act have been embodied in articles 250 and 257 of the Draft Constitution of India.

17. Here it is necessary to emphasize how the terminal tax on rail-borne goods and toll on imports by road and octroi, all form component parts of the same system of indirect taxation, which constitute for our municipalities the main source of their income. Octroi is levied on goods brought within a municipality for consumption or use therein, whether by rail or road, at the

Taxes which municipal boards were deprived of, after April 1, 1937.

Position of terminal taxes under Government of India Act.

Terminal tax, toll and octroi form component parts of one system of taxation.

same rates. The collection is made by the municipal agency and refund of octroi is allowed on goods exported from the municipality. The most objectionable features of this form of taxation result from the fact that assessment is made either on weight or *ad valorem* involving weighing or examination of value by a low paid staff, and the refund system facilitates the chances for harassment of trade, and corruption among the barrier employees. It is to avoid these defects that terminal tax system was introduced and Government resorted to the policy of gradually replacing octroi by terminal taxation. This comprises the terminal tax and the terminal toll. The former is levied on goods imported by rail and is collected by the railway administration on behalf of the municipality, the nature of the articles and weight being found by reference to the railway receipts; terminal toll supplements this, being a charge on import by road. Thus all these are variants of the same system of indirect taxation and as such closely co-related with one another. The Government of India Act has, however, split up this integral whole into terminal tax on rail-borne goods, to be administered by the Central authority, and the rest to be administered by the Province. This arrangement is not only anomalous, but has created practical difficulties some of which are indicated below :

(i) The Provincial Government has been stopped from carrying out any further its policy regarding replacement of octroi by terminal taxation. Octroi is still in force in 46 municipalities in the United Provinces whereas only 20 municipalities have terminal and toll taxes. Proposals from several municipalities to replace octroi by terminal taxation have had to be refused. What is worse, other municipalities desiring to impose indirect taxation for the first time were compelled to adopt octroi, as they could not levy terminal taxation. Thus octroi—the worst form of taxation—had to be buttressed or extended despite the declared policy of Government for its gradual extinction.

(ii) Compared to the pre-war years the prices of commodities generally have gone up by several times and there is every justification for increase in the rates of terminal tax which are the same as those prevailing on March 31, 1937, when the prices were very low. On terminal tax becoming a federal subject the municipalities cannot raise its rates and thus have been deprived of a very potential source of income.

Difficulties resulting from terminal taxes becoming a Central subject.

(iii) The regulation of the toll schedules has also been affected. In the past few years most of the municipalities have taken action to secure correspondence between the terminal tax and toll rates. Some municipalities went even further to raise their income. Since terminal tax could not be enhanced, they proposed the imposition of toll at much higher rates than those of terminal tax in order to effect a substantial addition to their revenues, and Government had to sanction such proposals although these involved unfair discrimination against the road imports.

(iv) Recently the Kanpur Municipal Board submitted a proposal to revise its toll schedule in order to equalize the terminal tax and toll rates, by classifying the imports in several groups and prescribing different rates of toll for the various conveyances in each classification. As this required a simultaneous amendment of the Toll Schedule of Kanpur Cantonment, because terminal tax and toll are jointly levied by the Municipal and the Cantonment Boards, the matter was referred to the Central Government, who have, however, held that the proposal is *ultra vires* as it involves an introduction of what may be regarded as terminal tax on road imports, which is beyond the jurisdiction of the Province. But the Provincial Government have already sanctioned such proposals from several municipalities in cases where a simultaneous revision of the toll schedule of any adjoining cantonment was not involved.

18. It may be added that when the transitory provisions of section 142(2) of the Government of India Act, also retained in Articles 257 of the Draft Constitution of India, would cease to operate and the Central Government would take over the administration and collection of terminal tax on goods carried by railways, the position is not likely to be any more satisfactory than at present both from the Provincial as well as the Central standpoints, for the following reasons :

Position would be no better after Central Government take over administration of terminal tax.

(1) The schedules of terminal tax and toll and octroi in the same province have to be dovetailed or at least co-ordinated with one another, and for this purpose the rates prevailing in adjoining municipalities have to be taken into consideration. It would often be improbable to achieve such co-ordination when the Central Government will have complete control over the terminal tax and the Province over the rest. For instance,

supposing one out of two neighbouring municipalities has terminal tax and the other levies octroi, it is likely that the rates of octroi in the latter may be pitched substantially higher than those of terminal tax fixed by the Central Government in the former. As a matter of fact, there may be wide divergence in the rates of terminal tax and toll in one and the same municipality, as shown in paragraph 17 (iii) above, on account of the dual control over them.

(2) From the very nature of these taxes, their rates, particularly for some commodities, need to be varied from town to town according to their different trade and industrial factors, and from time to time for various practical reasons, such as sudden rise or fall in prices, helping the growth of local industries, etc. However, if the Central Government is to fix the detailed schedules of terminal tax, which is quite different from fixing maximum rates for this purpose, for municipalities all over India, it would have to impose a rigid uniformity, without allowing for local variations. Otherwise, there would be so much delay as might cause considerable uncertainty and dislocation.

19. In view of the above facts, it would apparently be far more satisfactory if the Province were once again given the power to administer, i.e. to initiate, regulate and collect all indirect taxes raised entirely for the benefit of local bodies, while the Centre exercised general control over the whole range of such taxation. This would seem to be administratively more practicable and also far more likely to achieve Central objects, such as prevention of discrimination against the railway and adoption of a general unified policy. The Centre could then impose mandatory conditions, and maximum rates for all items of indirect taxes for local needs, while leaving the Province free to administer and regulate these within such limits.

20. Another municipal tax which has been seriously affected by the provisions relating to terminal taxes in the Government of India Act, also embodied in the Draft Constitution of India, is the pilgrim tax on railway passengers. This is levied by the municipalities which are pilgrim centres, such as Allahabad, Banaras, Hardwar and Faizabad, in accordance with certain principles

Desirability of terminal taxes being given back to Provinces.

Position of Pilgrim tax on railway passengers under the Government of India Act.

formulated by the Central Government, and is collected through railway administrations concerned by way of a surcharge on the railway tickets. A countervailing toll on passengers coming by road is also levied by some municipalities, e.g. Hardwar, which is a pilgrim centre of all-India importance, to avoid unfair discrimination against the railways. The main justification for this tax is that the municipalities in question have to incur extra expenditure on sanitation and other civic amenities for the benefit of pilgrims. The cost of municipal services has greatly increased today and there is obvious justification for raising the pilgrim tax rates which have remained static for more than 15 years. But the present constitution, and also the proposed one, makes any enhancement of the rates impossible until the tax is taken over by the Central Government.

21. As regards the taxes on trades, professions, etc. they are mentioned in item 46 of the Provincial List in Schedule VII of the Government of India Act, but are subject to the limitations laid down in section 142-A of the Act. This section provides that—

Limitations on taxes on trades, professions, callings and employments, under the Government of India Act.

(a) no provincial law relating to taxes for the benefit of the province or any local authority, in respect of professions, trades, callings or employments shall be invalid on the ground that it relates to a tax on income;

(b) the total amount of such tax payable in respect of any one person, shall not, after the 31st day of March, 1939, exceed fifty rupees per annum;

(c) any such tax which was being levied at a rate exceeding the above limit during the financial year ending with the 31st day of March, 1939, may continue to be lawfully levied at the higher rate that was in force until provision to the contrary is made by the Federal Legislature.

22. The above restrictions are applicable to both kinds of taxes on trades and callings, etc. leviable under clauses (ii) and (iii) of section 128 (1) of the Municipalities Act, viz. :
Further limitations on municipal taxes on trades and callings, etc. under the Professions Tax Limitation Act, 1941.

(ii) a tax on trades and callings carried on within the municipal limits and deriving special advantages from, or imposing special burdens on, municipal services.

(iii) A tax on trades, callings and vocations including all employments remunerated by salary or fees.

Clause (ii) mentions a special tax on trades and callings as compared with clause (iii) which is a general tax. In regard to the latter, the powers of our municipal boards were further curtailed by the Professions Tax Limitation Act, 1941, which provides that notwithstanding the provisions of any law for the time being in force, any taxes payable in respect of any one person to a province or any local authority by way of tax on professions, trades, callings or employments shall from and after April 1, 1942, cease to be levied to the extent to which such taxes exceed fifty rupees per annum. As a result of the above limitations, after April 1, 1942, no municipal board could impose on any one person any tax on trades and professions under clause (ii) or (iii) of section 128 (1) of the Municipalities Act at a sum exceeding Rs.50 per year, except in the case of a tax on special trades and callings under clause (ii) already in force in any municipality at a higher rate during the financial year ending March 31, 1939, which could continue to be so levied by the proviso to section 142-A (2) of the Government of India Act. It may, however, be mentioned that this form of taxation is imposed by very few municipal boards as it involves the grave responsibility of differentiating against individual trades and is not justified unless there is clear evidence of the special burden which any trade imposes on municipal services. Further, the incidence of this tax has to be regulated with reference to the cost of such services and therefore no municipality could have used it as a source of income required for general municipal administration. Thus its exclusion from the restrictions of the Professions Tax Limitation Act has been of little practical utility or benefit. The tax under section 128 (1) (iii) of the Municipalities Act was really a profitable source of income, and therefore its limitation to a low maximum of Rs.50 per annum is not only objectionable in principle, as it violates against one of the chief canons of taxation requiring assessment on each individual in proportion to his ability to pay to ensure an equitable distribution between rich and poor, but has also affected adversely the financial position of several municipalities.

23. The provisions of section 142-A of the Government of India Act have been retained in Article 256 of the Limitations on taxes on trades, professions, etc. under Draft Constitution of India. Draft Constitution of India with the modification that the maximum has been raised from Rs.50 to Rs.250, and a saving clause has been provided for the continuance of any tax on trades, etc., that was already being levied in any province, or local authority at a higher rate in the financial year immediately preceding the commencement of the new constitution, until provision to the contrary is made by the Parliament by law. For the purpose of our municipalities this saving clause is of little practical value, because after April 1, 1942, the tax on trades, etc. under section 128 (1) (iii) of the Municipalities Act could not be levied beyond the maximum of Rs.50 per annum in respect of any one person on account of the Professions Tax Limitation Act. Therefore, to be of some real benefit the saving clause should allow the rates in force in the financial year ending with March 31, 1939, i.e. before the limitations of section 142-A of the Government of India Act came into operation. As regards raising of the maximum from Rs.50 to Rs.250, it is a tacit acknowledgment of the fact that the present limit of Rs.50 is unduly low. But the proposed limit of Rs.250 also does not appear to be sufficient and it would be desirable to do away with any such limitation altogether in view of the position of circumstances and property tax and other considerations stated below.

24. The circumstances and property tax is levied by municipal boards under section 128 (1) (ix) of the Position of circumstances and property tax under Government of India Act. Municipalities Act and by district boards under section 108 (b) of the District Boards Act. It is of a very complicated nature and has been a subject of much controversy. It is not mentioned in any of the legislative lists (Federal, Provincial or Concurrent) in Schedule VII of the Government of India Act, 1935, nor is covered by any single item of these lists. This tax is also distinguishable from the tax on professions, trades, callings and employments, and the two have been actually so distinguished in section 128 (1) of the Municipalities Act, clauses (iii) and (ix) of which refer to them separately. But sub-section (2) of section 128 prohibits the imposition of both at the same time, which indicates that there is something

common between them. The question, therefore arose, whether the limitations regarding the tax on professions, trades, etc., imposed by section 142-A of the Government of India Act did in any way affect the circumstances and property tax, and when a reference about this was made to the Central Government they stated that the said section had no application to it. Consequently, it had hitherto been held that the municipal and district boards that were levying the circumstances and property tax before April 1, 1937 could continue to levy it after that date without raising its pitch or incidence, under the provisions of section 143 (2) of the Government of India Act, whereas other boards in which the tax was not in force on March 31, 1937, could not impose it at all.

25. The position has now been altered by a recent Full Bench judgment of the Allahabad High Court. The learned Judges after a careful discussion of every aspect came to the conclusion that the tax on circumstances and property imposed under section 108 of the District Boards Act is a composite tax, "consisting *inter alia* of the tax on professions, trades, callings and employments which fall under entry no. 46, and on lands and buildings which fall under entry no. 42 of the Provincial Legislative List of the Government of India Act 1935." Accordingly, it has been held that in so far as the circumstances and property tax falls under entry no. 46, it is affected to that extent by the restrictions of section 142-A of the Government of India Act and the Professions Tax Limitation Act. As such, after April 1, 1942, no district board could legally levy in respect of any one person, more than Rs.50 per annum as tax on circumstances and property in so far as it is assessed on the income derived from professions, trades, callings and employments.

26. It is obvious that the above ruling of the High Court will affect the financial position of district boards most adversely as the circumstances and property tax is a major source of their income. The maximum rate of this tax allowed under section 114 of the District Boards Act is four pies in the rupee on the total taxable income, and the maximum amount leviable per head is Rs.2,000 per annum. Taxable income is

Full Bench Judgment of Allahabad High Court about circumstances and property tax.

Effect of High Court Judgment on income from circumstances and property.

defined in the explanation to that section and in most cases the main part of such income comprises of what would be regarded as income from professions, trades, callings and employments, in relation to which the fifty rupees limit will be applicable. Therefore it is apprehended that the income from the circumstances and property tax is bound to fall considerably even though in so far as it is a tax on property and on income from any other sources, the maximum tax leviable may be taken as Rs.1,950 (i.e. Rs.2,000—Rs.50). The reason for this apprehension is that apart from the fact that such splitting of the tax might involve practical and legal difficulties on account of which the limit of Rs.50 may have to be taken, virtually, as the maximum limit for circumstances and property tax as a whole—the present limit of Rs. 2,000 cannot probably be reached as the maximum incidence of tax prescribed is only four pies in the rupee.

27. To meet this grave situation, there seem to be two alternative courses, namely—

Suggestions to save circumstances and property tax from limitations provided in the Draft Constitution.

(1) the circumstances and property tax may be added to the exceptions provided under section 3 of the Professions Tax Limitation Act, or

(2) the law prescribing any such limitation may be repealed altogether.

The first course would appear to be better for the purpose, but this will be only a temporary solution because as soon as the new constitution comes into force the limit of Rs. 250 prescribed in article 256 thereof would become operative. This limit too would be very insufficient for the purpose of circumstances and property tax levied by district boards because at the rate of four pies in the rupee it would accrue on an annual income of Rs.12,000 only, whereas persons having much larger income might frequently be found in rural areas. It was, apparently, for this very reason that the Provincial Government prescribed the present limit of Rs.2,000 for the circumstances and property tax as a whole. In the circumstances, the second course would seem to be more suitable, that is, the provision prescribing the limit of Rs. 250 for taxes on professions, trades, callings and employments in Article 256 of the Draft Constitution of India should be deleted, which would also be desirable from the standpoint of municipalities, as already stated in para. 23 above.

28. Now we come to the taxes known as "residual taxes" in the sense that they are not included in any of the legislative lists in Schedule VII of the Government of India Act. Under the existing constitution the residuary powers do not vest in either the Centre or the Province but under section 104 of the Government of India Act the Governor General can by notification confer such powers on either authority. However the levy of residual taxes which were already in force before April 1, 1937, may continue to the extent allowed by the provisions of section 143 (2) of the Government of India Act until provision to the contrary is made by the Central Legislature, i.e., if any such taxes were already being lawfully levied in any local area on March 31, 1937, the local body concerned may continue to levy them after that date without raising their pitch or incidence. In the Draft Constitution of India, however, there is a general entry no. 91 in the Union list to cover all matters and taxes not included in the State and Concurrent lists, and the legislation in respect of any such matter or taxation will be exclusively reserved to the Parliament under Article 223 of the Constitution. This may mean substantial loss to local bodies, and therefore it is necessary that the residual taxes, if any, should be specifically mentioned in the State List. Such specification appears to be necessary, because after the constitution is finalised our local bodies will be deprived of the opportunity to levy any residual taxes except in so far as saved by Article 257 of the Constitution.

29. Lastly, there are what may be regarded as absolute restrictions imposed by the Government of India Act and the Draft Constitution in respect of local taxation on the properties of the Central Government. The matter has to be considered with special reference to railway properties. According to section 154 of the Government of India Act all Central Government property is exempt from local taxation except in so far as such property was already liable to taxation prior to April 1, 1937, and provisions to this effect have also been made in Article 264 of the Draft Constitution of India. It would, however, appear that there is no justification for such an exemption today in the altered conditions created by the advent of

Position of "residual taxes" under Government of India Act and Draft Constitution of India.

Restrictions on local taxation in respect of Central Government and railway properties.

national freedom. The position was different when an alien Government claimed a preferential treatment to their properties under the sanctified dogma of imperial preference. It may be mentioned that the Central Government took shelter under the exemption provided in section 154 even in the case of goods of their Supply Department during war days when that Department was more or less a commercial concern undertaking huge business transactions. Exemption in such cases is obviously unjustified. As regards direct taxation, Provincial Government's property is exempt in very rare cases, e.g. court rooms are exempt from municipal house-tax, and there is no reason why Central Government properties should generally enjoy such exemption while enjoying all amenities provided by local bodies by virtue of such properties being situate within their jurisdiction. It is therefore desirable that the exemption of Central Government properties provided for in Article 264 of the Draft Indian Constitution should be withdrawn, specially when there is hardly any reciprocal concession allowed by the Central Government in respect of their taxes leviable on the properties of Provincial Government or their local boards.

30. The properties of railway were liable to taxation by local bodies prior to April 1, 1937, provided the Governor General in Council declared, by a notification under section 135 of the Indian Railways Act, 1890, any railway administration to be liable to pay the tax levied in a local area. The Government of India, however, had to be satisfied that the levy of a tax on the railway was justified by the direct and indirect services rendered to it by the local authority concerned. In making the provisions of the said section 135, the object of the Legislature was not to relieve railways altogether from the liability to local taxation, but to obtain control over the demands on railway administrations by municipalities and other local authorities, and to see that railways were not unfairly exploited for the benefit of local authorities. It was, however, recognized that the railway administrations should pay for such specific services in the shape of water-supply, scavenging, etc. as may be actually rendered, and should also bear, like other property-owners within the local areas, their fair share of the general taxation imposed for purposes by which they directly or indirectly benefit. In this connection it has to be noted that in

1890 when the Indian Railways Act was passed, the railways were the property of alien capitalists who wanted the maximum profits for their investments, and the then alien Government was naturally anxious to safeguard the welfare of railways, which meant the welfare of their own nation. But as already stated above, it was never intended that the railways should be exempted entirely from local taxation and the interests of local authorities should be ignored. The intention only was to check unfair exploitation of railways by local bodies, recognizing at the same time that railways like other property holders in a local area should also pay their fair share of general taxation.

31. The Government of India Act, 1935, however, altered the position. By that time most of the railways had been taken over by the Central Government, and section 154 of the Act exempted all their property from local taxation, except in so far as any such property was liable to any tax immediately before April 1, 1937, until otherwise provided by the Federal Legislature. The result of this was that although the railway properties liable to any tax on March 31, 1937, continued to be so liable the rate of the tax could not be increased and no new property acquired or built on or after April 1, 1937, could be taxed,

32. Subsequently, the Railways (Local Authorities' Taxation) Act, 1941, was passed to regulate the extent to which railway properties should be subjected to local taxation. This Act empowers the Central Government to declare, by notification under section 3(1) of the Act, a railway administration to be liable to pay any tax levied by any local authority, and also to vary or to revoke any notification already in force under section 135 of the Indian Railway Act, 1890. However, even now the Central Government need to be convinced, before issuing any notification, that the tax to be imposed on a railway is in proportion to, and for, services rendered. Railway properties are thus placed in a privileged position, for if the Central Government do not accept the liability of such properties, the latter cannot be taxed. The Central Government have stated on more than one occasion, that their policy is to issue notification declaring a railway to be liable to pay any tax, only when there is at least some justification for the railway paying the tax.

33. It is felt that this is not in conformity with the principles of taxation, as several municipal taxes, such as the house-tax in the United Provinces and the general water rate in Bombay, are not levied by municipalities only for specific services rendered to the tax-payers but also to cover the cost of general municipal amenities provided for the residents of the municipality. Moreover, there is always some justification for railways paying the local taxes. Even in the case of self-contained railway colonies, their residents indirectly enjoy the benefits of such amenities as roads, lighting and sanitation, etc. provided in the surrounding municipal area, and they are bound to be inconvenienced if these services are not maintained properly. Thus, although a railway may be making provision for what may be termed domestic services within its own boundaries, it cannot claim to be exempted from municipal taxation on this ground, for similar arrangements are made by every other prudent owner of property who pays the taxes in a municipality. In such cases taxation is further justified by the indirect services rendered to the area in which the railway employs for the purpose of its business, in other words the area in which its traffic is collected and whence it is brought into the railway premises. The chief of these services is the maintenance of the approach roads to the markets and between the markets and the railway stations, and maintenance of roads is obviously no small burden on municipalities. In this respect the Railway has exactly the same liability as any other business concern working and occupying buildings within a municipality. In fact, by their very nature, railways are essentially commercial undertakings making large profits and it would only be just and proper that they should like other commercial concerns contribute towards the cost of maintaining general municipal services in the area in which their properties are situated. This view is shared by several Provincial Governments in India and the Central Government have already been moved by some of them, e.g., the Bombay Government and the U. P. Government, to set matters right by amending the existing law relating to this subject. However, it cannot be denied that there is a reasonable ground for the exemption of such portions of railway premises as are purely for public conveniences and not for purposes of profit, e.g., passenger's stations, platforms and waiting-rooms. Taxation should, therefore, be limited to railway buildings used for

Liability of Railway
properties to local tax-
ation.

office or residential purposes, goods-sheds and other adjuncts of the goods traffic, and such other places as are directly associated with the profits of the administration. Accordingly, apart from the amendment of the existing laws, the provisions of Articles 264 of the Draft Indian Constitution should also be so modified as to provide for the taxation of Union property, particularly the railway property, by local authorities to the extent indicated above.

34. The foregoing paragraphs indicate the various limitations imposed on the taxation powers of local authorities by the Government of India Act, 1935, and also those contemplated by the Draft Constitution of India. If the suggestions made above with regard to such limitations can be got implemented by necessary amendments to the existing laws and the Draft Constitution, the financial conditions of local boards will improve considerably. But the task does not end there, because additional ways and means have to be discovered for enhancing the income of local bodies to enable them to cope with their rapidly mounting expenditure, which has outrun the growth of their revenues. The causes of this disparity are three-fold, namely :

Necessity for co-ordinating resources of local bodies to their requirements.

(i) The present abnormal rise in the prices which has greatly increased the cost of municipal services.

(ii) The progress made in the standards and technique of municipal services such as roads, sanitation, education, etc.

(iii) The taking over of the most productive sources of income by Central authorities.

It is obvious that nothing can be done so far as (1) is concerned and it is outside the scope of our inquiry. As regards (2), it is not only desirable but essential that the local authorities should keep pace with the day-to-day advancements made with regard to the various public services which they maintain within their jurisdiction and it is naturally expected that they should bring these services, as far as possible, in conformity with the latest progress in standard and technique. With regard to (3), however, it has to be seen that the interest of local authorities is not overlooked, and they are provided with adequate resources to enable them to discharge their obligations satisfactorily towards the people in the urban and rural areas. In the present scheme of things the local authorities must be regarded as limbs of the organism of State, and should not be looked upon merely as "local" as distinct from the "State". It is the duty of the State

to see that the local boards not only have sufficient income to pay their way, but also have elastic sources of income to cope with their growing needs.

35. The most important sources of revenues of local authorities should be the taxation of the capital or rental value of real property. This source is, however, not sufficiently expansive, and therefore has to be supplemented by indirect taxation. Under the Draft Constitution of India most of the elastic sources of revenue including terminal taxes, taxes on income other than agricultural income, taxes on capital value of assets of individuals and companies, and taxes on capitals of companies are included in the Union list, and as such cannot be availed of by any State or local authority. One basis for the allocation of resources between local authorities and the State is that the incomes which have purely local origin should be assigned to the local authorities. Accordingly, it would appear that the administration of some of the above taxes, e.g., the taxes on capital value of assets of individuals (entry no. 88 of the Union List), should be handed over to local boards, who also seem to be entitled to at least a portion of the income from the duties in respect of succession to property other than agricultural land (entry no. 81) and from the taxes on the capital value of the assets of companies and taxes on the capital value of companies (entry no. 88). Similarly, the proceeds from the taxes on entertainments and amusements, which fall in the Provincial list and seem to be essentially of local origin should form part of the local boards' revenues. In any case, in fairness to local authorities it is desirable that they should be allowed to levy, when necessary, a surcharge on the taxes of the kind mentioned above, notwithstanding that they are in the Union List, subject to such maximum and minimum incidence or rate as the Parliament may prescribe in this behalf. In several countries, e.g. in England, France, the U.S.A., Canada and Australia, the local authorities have already got such powers of taxation. It is, therefore, desirable that necessary provisions in this respect should be incorporated in the new Constitution of India.

36. The Committee, accordingly, recommends that amendments to the following effect may be moved by the Provincial representatives in the Constituent Assembly when the discussion on the Draft Constitution is taken up there. These are merely our tentative suggestions, and may be given legal form by Government in consultation with their legal advisers.

Recommendations
about amendment of
Draft Constitution of
India.

Draft amendments

(1) In Article 256 of the Draft Constitution—

(i) for the words and figures “clauses (2) and (3)” occurring in clause (1) *substitute* the word and figure “clause (2)”.

(ii) *delete* clause (2) ;

(iii) *renumber* clause (3) as clause (2).

(2) In Article 257, for the words “or by any municipality or other local authority or body for the purposes of the State, municipality, district or other local area” *substitute* the words “for the purposes of the State.”

(3) After Article 257 add the following as a new Article 257A :

“257A. Notwithstanding anything to the contrary in this Chapter, but subject to the sanction of the Government of the State concerned, every municipality, district board, local board or other local authority shall have power—

(i) to levy, and also to vary the rates and other incidents of, all such taxes, duties, cesses and fees as were being or could be lawfully levied by them immediately before the commencement of the Government of India Act, 1935 ;

(ii) to impose a surcharge or a surtax on any tax, duty, cess, or fees levied by the Government of India or of the State concerned :

Provided that the Parliament may by law prescribe the maximum or minimum incidence or rate for the imposition of any such tax, duty, cess or fees mentioned in clause (i), or of any surcharge or surtax mentioned in clause (ii) above.”

(4) Add the following as a further proviso to Article 264 :

“Provided further that, subject to such conditions as may be imposed by the Parliament by law in this respect, every municipality, district board, local board or other local authority shall have power, subject to the sanction of the Government of the State concerned, to impose taxes, duties, cesses or fees in respect of all properties belonging to, and the profits accruing from, all quasi-commercial undertakings of the Union, including the railways, and or of any State, situated within the jurisdiction of the local authority concerned.”

HAR GOVIND SINGH,

Chairman.

APPENDICES

APPENDIX I

(Extracts from the speech of SHRI G. K. GOKHALE)

RESOURCES OF LOCAL BODIES

(Resolution moved in the Imperial Legislative Council recommending the appointment of a Committee to enquire into the adequacy or otherwise of the resources at the disposal of the local bodies on March 31, 1912.)

MY LORD, I beg to lay the following Resolution before this Council for its consideration :

That this Council recommends to the Governor General in Council that a Committee of officials and non-officials be appointed to inquire into the adequacy or otherwise of the resources at the disposal of Local Bodies in the different provinces for the efficient performance of the duties which have been entrusted to them, and to suggest, if necessary, how the financial position of these bodies may be improved.

My reasons for adopting this course are first, that, though the Decentralization Commission went at some length into the general question of local self-government, its inquiry into this particular branch of the subject, namely, the adequacy or otherwise of the resources at the disposal of local bodies was extremely slight. . . .

I will, however, refer briefly to the evidence tendered on the subject by three important witnesses before the Decentralization Commission. The first witness whom I shall quote is *Sir Herbert Risley*, now alas no more with us. Sir Herbert Risley says :

"It must be admitted that the resources of District Boards and Municipalities are not sufficient to enable them to work up to modern standards of administration. In municipalities this is most conspicuously the case."

The second authority that I will mention is that of the late *Sir John Jenkins* who expressed himself on this question with characteristic decisiveness. He pointed out that the resources at the disposal of local bodies were exceedingly meagre, and he said that considering that they were so meagre, it was no wonder that more interest was not felt in the work of local bodies. If local self-government was to be a success in this country, he strongly held that the resources of local bodies must be largely increased.

My third authority will be my honourable friend Sir James Meston. . . He strongly advocates that the resources at the disposal of local bodies should be largely increased. And he says, especially speaking of District Boards, that there should be quinquennial settlements made by Provincial Governments with them as to the additional revenue that should be allotted to these bodies.

My last authority—last but not least—will be the present Home Member. In a speech which he delivered some time ago in the Central Provinces the Hon'ble Member dealt with the question as to why local self-government was not a greater success than it was, and he said that, *considering the fact that the resources at the disposal of the local bodies were so extremely meagre, the surprise was not that they had not done better, but that they had done as well as they were doing.*

I think, my Lord, I need not adduce any more testimony on the point that the resources at the disposal of local bodies are very slender, and that, if local self-government is to be a success in this country, they ought to be largely increased. The Decentralization Commission have expressed the same opinion. . . . My Lord, it may be said by some that after all if local bodies wanted money, they should tax themselves more and thus provide this money. What margin there is for such additional local taxation, what is the total incidence of imperial and local taxation and how far the proceeds of taxation are equitably distributed between the Central Government and local bodies, are, however, questions of great importance and require a careful examination. . . . Relatively to their resources the people of this country contribute the same proportion of their income as taxation, imperial and local together—that the people in leading Western countries do. There are three different systems of local self-government in the West. The first is the American system, where the local authorities have independent revenues of their own—absolutely independent revenues. But they also enjoy complete immunity from the control of the State. The second is the English system, where the local bodies derive a large part of their revenue from their own rates ; then certain revenues have been made over to them by the Central Government as assigned revenues in recent times—this was carried out by Mr. (now Lord) Goschen in 1889—and in addition they receive certain grants from the Exchequer. Thus what they raise from rates is supplemented by certain revenues known as assigned revenues and by grants from the Exchequer. And the third the Continental system, of which I will take France as the type. *In France, the local bodies derive a large part of their revenue by the simple process of being permitted to add extra centimes to the taxation which the Central Government levies* from four “Direct Contributions” and this is a very important proportion of the resources of local authorities in France. Our system of local self-government in India is more similar to that of France, where the control of the Central Government over local authorities is much more stringent than it is in England ; but, as our future development will have to be more on English lines, I think it is necessary for us to study carefully both models, the English and the French. . . .

We thus find that *of the total national income about 11 per cent. is contributed in imperial and local taxation in England; about 12 per cent. in France; and about 11 per cent. in India.* It is quite clear, therefore, from these figures—and they may be relied for general purposes—that relatively to our resources we contribute the same proportion of our income in the shape of imperial and local taxation.

But where the trouble comes in is in its distribution. *The revenue thus raised is distributed in this country much more unfavourably to local bodies than happens to be the case in England and in France.* In England, . . . the local bodies had in 1909, . . . received altogether about 98 millions out of a total of 200 millions. . . . Thus the total of 200 million pounds raised by taxation was practically divided half and half between the Central Government and local authorities. . . . In France, . . . we find that about 95 millions represented the expenditure of the State for central purposes . . . and about 58 millions represented local expenditure. . . . This gives us a proportion of about two-fifths for local and three-fifths for the State. In India, it will be found that, even including the Government expenditure on police, education and medical relief in local expenditure—I include the police in India among ‘beneficial’ services with considerable hesitation—we still find that the *Central Government took last year about 40 millions out of a total of 50 millions for its own purposes, i.e., four-fifths; of the remaining 10 millions, too, more than one-half—nearly two-thirds—was administered by the State itself, and only a little less than one-half being administered locally.* Here then is the real root of our trouble. It is not that we pay less for imperial and local purposes but that what we pay is distributed so unequally between imperial and local services in this country. The Central Government here takes a much larger proportion than what is done in England or France.

Now, my Lord, I do not say that this can be remedied at once; but some way must be found to secure a larger proportion for local bodies. . . . The total contribution from land is distributed in an altogether different manner here and in England or France. In England the bulk of the contribution that comes from land goes to local bodies, the Central Government receiving only a very small amount as land-tax. In France more than half the contribution from land goes to local bodies. . . . In this country, however, the division is in the proportion of 16 to 1, that is, sixteen-seventeenths goes to the State and only one-seventeenth to local bodies. . . . If we could get *for our local bodies a much larger share of the contribution from land, even if the proportion was not as high as in the West, most of the financial troubles of those bodies will disappear.* Of course, my Lord, I do not mean that any large proportion of the land-revenue can be transferred at once to local bodies. But I urge, that, in consideration of this difference, the Government should help our local bodies with large recurring grants. . . .

I therefore, urge, my Lord, that a careful and thorough inquiry into this question is absolutely necessary, by a body of men qualified to deal with the subject, who should confine themselves to this sole single question of the adequacy or otherwise of the resources of local bodies. The Committee should inquire into, first of all, whether the present distribution of resources between the Imperial Government and the local bodies is a fair one; secondly, in what ways the Central Government can come to the assistance of the local bodies—whether any revenues can be assigned as is done in England, and, if so, what, to what extent

steadily increasing recurring grants-in-aid can be made from the Imperial Exchequer to the local bodies, and whether there is any margin for additional local taxation, and if so, to what extent. . . . My Lord, I urge this inquiry because the whole future of our local self-government depends upon this . . . as also because the interests of health, education and communications, which are in the charge of local bodies, are of the utmost importance to the community. . . . :



सत्यमेव जयते

APPENDIX II

A note by DR. B. M. SHARMA on the necessity of allocating to local bodies enough sources of revenue under the new Constitution

It is a well recognized principle of public finance that every Government or institution should have enough sources of revenue to discharge its obligations and unless an equilibrium is established between the income and expenditure no efficient working is possible. Under the Draft Constitution of India, fundamental rights of the citizens have been categorically stated, and apart from that certain directive principles of State policy have been laid down. Article 36 of the Draft says :

“Every citizen is entitled to free primary education and the State shall endeavour to provide, within a period of ten years from the commencement of this Constitution, for free and compulsory education for all children until they complete the age of fourteen years.”

Article 37 also says that the State shall promote with special care the educational and economic interests of the weaker sections of the people. Article 38 lays upon the State the duty to raise the level of nutrition and the standard of living and to improve public health. Article 17, clause (1), relates to certain aspects of social amelioration. All these rights enumerated above or contained in the foregoing directly and impliedly mean that the local bodies shall have very heavy responsibilities imposed upon them if these rights are secured to the citizen, more particularly with regard to giving compulsory free primary education and improving public health.

But the division of powers contained in the Union and the State lists (Lists I and II of the Seventh Schedule) leaves little scope to the Provincial Governments or local bodies to raise enough revenues for meeting the obligations imposed upon them. Does it mean then that the local bodies charged with the primary function of giving education to children on a compulsory and free basis and promoting the public health of the people will have to look to the Centre for such doles as may be given to the former from time to time? There is a tendency in certain federations towards centralization of power so as to make the Central Government stronger than is warranted by the terms of the Constitution. But such a tendency is observed only in those governments where the Central Government is given only specified and limited powers and where all the enumerated powers belong to the units. There is also an opposite tendency observable in some federations, like Canada, where the provinces are getting more and more powers in order to discharge their obligations under modern conditions of life. The extreme importance which the framers of our Constitution are attaching to the necessity of making the Centre very strong and powerful should not, however, be carried too far so as to leave little

margin for the local bodies upon whom the main burden of administering to the daily needs of the people in matters of education, transport, public health, etc., will fall. Compared with the Government of India Act, 1919, the Act of 1935 reduced the powers of taxation enjoyed by the provinces and local bodies, and now under the Draft Constitution even more powers of taxation have been taken away from the local bodies and provinces by the Centre. On the contrary, no one can dispute the fact that in the coming years the local bodies in particular and the Provincial Governments in general shall have larger responsibilities to discharge as indicated above. It is, therefore, necessary that suitable amendments must be made in the Draft Constitution so as to transfer more powers of taxation from the Centre to the provinces and even to the local bodies. Unless this is done, it is very much to be feared that the Constitution would fail in its object so far as the securing of the fundamental rights of the citizens is concerned or the adherence to the directive principles of the State policy is to be a fact and not mere paper provision.



APPENDIX III

Extract from the speech of Shri R. K. Sidhwa in the Constituent Assembly, during the budget session of March, 1948

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We have won our freedom but where is the freedom for me? Unless Government improved the condition of the masses in the villages they would not bring prosperity and happiness to the country. And the villagers' lot could be improved only by providing the local bodies sufficient funds to enable them to discharge their responsibilities. The relations between Provincial Government and local bodies had never been cordial. The proceeds of the electricity tax entertainment tax and the luxury tax in fairness should go to the local bodies but they were taken away by the Provincial Governments. How could the local bodies function if the taxes were not equitably distributed?

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APPENDIX V

Extract from "Public Finance" by Prof K. K. Sharma

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The poverty of local bodies in India is marked in contrast with the rich resources of similar bodies elsewhere. The Simon Commission remarked that "local rates of all kinds, urban as well as rural, produced in 1927-28 in British India about 12½ millions, which is only little more than the income from rates in that year of the London County Council alone". *The resources of local bodies in India are very inadequate in view of the devolution of powers to local bodies and in view of the variety and wide range of their functions like public health, education, etc. . . . Another important factor explaining the inadequacy of local resources is the unfair distribution of revenues between the Central, Provincial and local authorities. . . . The bulk of the contribution from land in England goes to local bodies and the Central Government receives only a very small amount as land tax. The financial weaknesses of Indian local bodies is also explained by the fact that they have developed by the process of devolution of powers; while in other countries generally the development has been brought by a process of federation of strong, semi-independent smaller units into larger political units. In India the Central authority has thus parted with smaller resources for local bodies. . . ,*

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APPENDIX VI

Extract from "LOCAL FINANCE IN INDIA" by Gyan Chand

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The local self-governing institutions are generally regarded as schools of democracy, and this function of theirs has been fully stressed in all official pronouncements on the subject of Local Self-Government ever since the famous 1882 Resolution of Lord Ripon. . . .

Importance of local government for National development.

India has to embark upon a programme of all-round national reconstruction if the new freedom is to fulfil the hopes which it has aroused. In the spheres of health, industry, and education the country has to make a rapid headway and the tempo of progress has to be determined not only by our own needs, great and urgent as they are, but also by the necessity of keeping pace with the march of world events. *It will be necessary to have a national plan and programme, and among the agencies which will be entrusted with the task of their execution, the local bodies will easily have the foremost place.* Their weakness will not only hinder the political development of the country but also react adversely on our progress in all other spheres of national life. . . . In spite of progress of local self-government in some of the larger cities, the fact remains that in the smaller urban and rural areas the edifice of local government is still very weak and in the villages where the foundation of the whole system must as the Decentralization Commission pointed out, be laid, local self-government is practically non-existent. . . . In matters relating to health, education, and communications—the three functions which have everywhere been assigned to the local authorities—the overshadowing importance of national interest is becoming more and more apparent everyday. The necessity of maintaining a national minimum of efficiency in the discharge of these functions by the local authorities exists not merely because all local units have to be kept up to the same level of efficiency, but because they are essentially national functions, and the well-being of the entire nation depends upon the adequacy with which they are discharged.

The great potential importance of the local bodies carries with it the necessity of recognising the fact that their present position is not at all re-assuring. . . .

Inadequacy of resources of local bodies.

The inadequacy of their resources, which is the crux of the whole problem of local finance, presents, of course, a difficulty against which we will have to struggle for years to come; and it is at present the most serious obstacle in the way of the local bodies.

The most important source of revenue of the local authorities is the taxation of the capital or rental value of real property. But this source is not expansive and the burdens which it has to carry are out of proportion to the capacity of the local tax-payer. It is, therefore,

Method of improving local bodies.

necessary to give them relief and supplement local revenues by assignments from the central revenues. . . . *In Europe the common method of raising local revenues has been the super-imposition of surtaxes on central taxes by the local authorities.* This method is still important, but there the significant development of the post-war period in local finance has been the increasing reliance on assignments, or 'deductions' as they are called in Soviet Russia, from central revenues for local purposes. . . . Local revenues are, it is now clear, inadequate for local purposes because the word 'local' has changed its meaning in actual practice. It is now a convenient but not a 'generic' term. Local needs are more national than local, and *local revenues cannot be derived from purely local sources, because taxes which are exclusively local in their incidence and effect are relatively speaking, unimportant.* The resources at the disposal of the local authorities even at present are many and various. . . . but the main reason which has almost a paralysing effect on their activities is that *the yield, both actual and potential, of these sources of revenues is limited* and even with the utmost care and economy, it is not possible to attain anything like a decent level of civic development. . . . The fact which makes the local taxes particularly inelastic is that, in spite of the variety of taxes which they can levy, *the local authorities cannot expect to derive large income from them because the margin of taxable capacity of the people which the Central and Provincial Governments in India leave untapped is very narrow.* Land tax is the mainstay of provincial finance; and even if the existing statutory limits on the levy of surtax or land cess by the rural boards be removed, the latter will not be able to pitch it at a high level on account of the heavy incidence of the provincial tax. But, as is well known, the resources of the provinces themselves cannot be materially increased owing to their inherent inelasticity. The real elastic sources of revenues have been allocated to the Central Government, and the new financial settlement, though in some respects an improvement upon its predecessor, leaves most of the anomalies of the latter unaffected and creates new difficulties. . . .

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APPENDIX VIII

*Extracts from the "Report of the Royal Commission upon
Decentralization in India" (Hobhouse Commission), 1907*

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RURAL BOARDS.

728. In connexion with the revision of the financial settlements with the Provinces when under consideration, the Government of Lord Ripon addressed the Local Government in October, 1881, on the subject of the extension of local self-government in municipalities and rural areas. As regards rural boards, the policy then suggested was as follows:—

" It would be hopeless to expect any real development, of self-government if local bodies were subject to check and interference in matters of detail; and the respective powers of Government and of the various local bodies should be clearly and distinctly defined by statute, so that there may be as little risk of friction and misunderstanding as possible. Within the limits to be laid down in each case, however, the Governor General in Council is anxious that the fullest possible liberty of action should be given to local bodies."

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830. . . . We think that municipalities should have full liberty to impose or alter taxation within the limits laid down by the municipal laws. . . .

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840. The Government of India have intervened to moderate the incidence of municipal octroi duties, so as to prevent their trenching on spheres of Imperial revenue, and to require refund of duty on goods which merely pass through towns in transit. . . .

Complaints have been made, especially in Bombay, as to this interference. We consider that the Government of India are fully entitled to lay down general instructions in regard to such matters; but that *their specific application to individual municipalities should be normally left to Local Governments.* . . .

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843. The full powers will no doubt, occasionally lead to mistakes and mismanagement, but we consider that municipalities can attain adequate financial responsibility only by the exercise of such powers, and by having to bear the consequences of their errors. *They cannot make real progress if constantly kept in financial leading strings, nor can local self-government become a reality if local bodies are habitually protected against themselves.* . . .

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APPENDIX IX

Extract from the "Report of the Indian Taxation Enquiry Committee" (Todhunter Committee), 1924-25

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LOCAL TAXATION

383 Some local taxes are specifically levied for the purpose of procuring particular amenities for the inhabitants of particular localities and earmarked for the purpose. Others are levied for purposes of a more general character. . . .

Local taxation has a large element of payment for services rendered.

384. In endeavouring to see what principles underlie the systems of local taxation in other countries, it will perhaps be useful, instead of examining the systems country by country to attempt to arrive at general conclusions as to the nature of the local self-governing bodies, the nature of the functions which they perform and the manner in which they are furnished with funds for the purpose. It is proposed to take as examples the local self-governing bodies of the United Kingdom, France, Prussia and Japan.

The nature of local bodies in other countries.

386. In the matter of finance, there is much more difference between the systems of the countries taken as examples than in the matter of the constitution of the bodies or of the functions assigned to them There is, however, more similarity in the sources of the revenues than would at first sight appear. . . . Thus in all cases there is a large dependence on taxes on land and other property. . . .

The taxes levied.

The next principal item of revenue was until recently derived from surcharges on State taxes. Thus, in France there was a surcharge on the principal items of State taxation. In Prussia, the income-tax for local purposes is levied in the form of a percentage addition to the State income-tax. In Japan, cities, towns and villages levy surcharges on the four national taxes, i.e., land, income, business and mining, and on the prefectural taxes such as the household rate and house tax.

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TAXES ON PERSONS

443. The principal taxes on persons now levied by local bodies are the following :

The taxes on persons fall into six categories.

(1) A tax on circumstances and property in the United Provinces, the Central Provinces, Bengal and Bihar and Orissa.

(2) A tax on professions, trades and callings in Calcutta, Madras and the Punjab, and as an alternative to the tax on circumstances and property in the United Provinces and the Central Provinces.

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(4) A tax on pilgrims in Madras, Bombay, the United Provinces, the Central Provinces and Bihar and Orissa.

(5) A terminal tax on passengers in Calcutta and Rangoon.

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444. The tax on circumstances and property is levied in many cases as an alternative to tax on lands and buildings, chiefly in municipal areas. In 1922-23 it yielded in these areas 4.49 lakhs in Bengal, 1.99 lakhs in Bihar and Orissa, 1.35 lakhs in Assam, and 4.24 lakhs in the United Provinces. In the latter province, it has also been introduced in rural areas as a tax on incomes other than those from agriculture and yields about 7 lakhs a year. . . .

445. A tax on professions and trades has been familiar in India from very early times. Since 1886, it has been levied principally in municipalities, but quite recently it has been introduced into local board areas also. Its yield in municipal areas in 1922-23 amount to Rs.10.29 lakhs in Madras, Rs.12.21 lakhs in Bengal and Rs.1.30 lakhs in the United Provinces.

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447. Taxes on pilgrims are usually levied on the railway tickets and are collected by the railway company for a small commission. They apply only to certain pilgrim centres, and in many cases they can be imposed only during certain festivals. There is usually a free zone, all passengers coming from station within the free zone being exempt from the tax . . . *the receipts are generally earmarked for very necessary purposes of providing conveniences for pilgrims and taking measures to prevent the spread of epidemics.*

448. A terminal tax on passengers is levied in Calcutta and Rangoon. . . . A light terminal tax on passengers may be justified in the case of a large city on the grounds that, as a centre of trade or amusement or of public offices, many non-resident persons come in and make use of the amenities provided by the local governing body. . . .

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LOCAL TAXATION OF RAILWAYS

457. The Committee do not propose to deal with the general question of exemption of railways from local taxation since in numerous modifications issued under the Railways Act, the Government have definitely admitted the liability of railway companies to taxation for local purposes, and the companies have also acquiesced in the position.

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459. In India the earlier Railways Act of 1854 and 1857 contained no provision as to the taxation of railways by local authorities, and *municipal taxes were levied in many provinces, before the Act of 1900 was passed. . . .* Since 1890 the local taxation of railways has been regulated by section 135 of the Railways Act of that year, the object of which, as explained by the Government in a letter issued in 1901, was "*not to relieve railway administrations from any liability to local taxation, but to obtain control over the demands on railway administrations by municipalities and other local authorities and to see that railway administrations are not unfairly exploited for the benefit of local authorities. . . .*"

466. The principle which is most appropriate seems to be that local taxes are largely of the nature of payments for services rendered, and that the services rendered to a railway can best be gauged by the extent and value of property used for the reception and despatch of goods and passengers. The Committee further consider that, since the Government have definitely admitted the liability of railways to local taxation for general purposes, it would be illogical to exclude the truck, but since it has been excluded till now, the exemption should continue

The rate of property tax in each case should be the rate fixed for other properties in the same town.

468. So far the discussion has been confined to the application to the case of railway properties of the main municipal tax or rate which is applied for general purposes. There have to be considered in addition municipal taxes of two other classes, namely—

(a) taxes imposed as the equivalent of specific services rendered and

(b) taxes imposed on private individuals.

The question of taxes imposed for specific services rendered has already been discussed on general lines *Where the services are rendered to individuals, as for instance to railway officer at their residences, the tax must of course be paid by them as by any other individual living in the town.*

469. Similarly, as regards the taxes on individuals, such as a profession tax, a tax on carriages or a license fee for dogs. The fact that a particular individual residing in a municipality is in the employment of a railway company can, of course, afford no reason for exemption from taxation of this kind. *Similarly, in the case of octroi or terminal tax on goods imported by individuals. And under this head must be included importations on behalf of railway co-operative stores and refreshment rooms.*

THE DIVISION OF THE PROCEEDS

Part II—Provincial and Local

540. In all federal countries, *the division of sovereign powers between the Federal Government and the component States is defined by Statute, but there is no such clear division between the functions and powers of taxation of the State and the local authorities.* In the case of the services that are administered by local authorities, however, the State is in most countries responsible, and consequently it is often compelled to prescribe standards of administration and to exercise control over the local bodies in order to ensure adherence to the prescribed standards. This control generally involves financial assistance. In India such control has been exercised to a greater extent than in most countries owing to the fact that local authorities have developed to their present state by a gradual process of devolution of powers, and though these bodies now enjoy far more independence than before, the Provincial Governments are still responsible under the Government of India Act for the services conducted by them.

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547. The plan of assignment of a share of State taxation is not one that can be recommended in normal circumstances. The Committee have, however, recommended its adoption in two special cases. In the first of these, what they have proposed is *the assignment of a share of the Government revenue from non-agricultural land in towns collected under the ground rent rules or some similar plan.* The reason for this recommendation are that the land is better managed by the Government agency, but that at the same time the local authorities are entitled to share in the revenue produced on the ground that they provide the services which help to create the value. The second case is that of taxes on entertainments and betting. In this case, the Committee have recommended that the taxes should be imposed and administered by the Provincial Government, in order, among other reasons, to prevent their being used as a means of class taxation. At the same time, *inasmuch as entertainments involve expenditure on local bodies,* they have thought it right to recommend that the latter should take a share in the proceeds.

APPENDIX X

*Extracts from Memorandum by the Hon'ble Sardar Jogendra Singh,
Member, Indian Taxation Enquiry Committee (Todhunter
Committee)*

Taxation is the measure of the wisdom of a state . . . it registers with unfailing accuracy whether a state is aware of its dhar, and secures the devotion and loyalty of its people by rendering services, or by imposing unacceptable burdens, loses their loyalty and devotion. "The king shall fix" said Manu long centuries ago, "duties in his realm in such a manner that both he himself and the mau who does the work receive their due reward. As the bees take their food little by little, even so must the king draw from his realm moderate annual taxes. As the sun draws water in his rays, so let him draw his taxes from his kingdom". I have cited from Manu that *in India indirect taxes were regarded as the best source of raising revenue*. In countries where scientific invention combined with organization of capital has accelerated production, higher standards of taxation have been brought into play. *In India, where the primitive plough and the handloom are still holding the field, old standards must slowly change with the pace of industrial progress.* . . .

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I hold then that, in considering new taxes, the principle of minimum aggregate sacrifice, combined with a clear definition of a border line below which taxation would be a bad business, and *graduating the tax as the base increases above the border line, is the best way of taxing the ability of the people.* . . . The principle of taxation should apply without any variation to the non-agricultural and agricultural population bearing in mind that *net income is the sole and immediate source of a tax*, whether it is derived from land or from trade or from the manufacture of raw materials.

APPENDIX XI

*Extracts from the Report of the District Finance Committee
(Pin Committee), 1927*

... Ever since their constitution *the strictly local income of all district boards* derived mainly from cesses, mill rents (in hill districts, pounds, ferries, fees medical, educational, and subscriptions, *has proved insufficient, to meet the local needs of their administration and has had to be supplemented by grants from general revenue.* . . .

In 1907 Messrs. Way and Aikman after full inquiry into the position and needs of district boards, prepared a programme of public works the total estimated cost of which amounted to a little more than Rs.1,04,00,000. A contract was then drawn up between Government and the boards according to which the contributions made by the Government to the boards amounted to about Rs.7,50,000 annually, and was gradually to increase. . . .

In 1921 Mr. E. A. H. Blunt, I.C.S., worked out a scheme for reorganizing district board finances based on their normal recurring income and expenditure for the three years, ending with March 1922. . . . This scheme, however, was never put into practice.

One other attempt was made in 1924 by Sir Ivo Elliott to place district board finances on a more satisfactory footing, without making any allowance for possible new taxation. . . . The result aimed at was to put all district boards in a position to meet normal recurring expenditure, with a small balance. But no provision was or could be made either for original works or for expansion, to meet which the only resources were new taxation, or an increase in Government grants. These proposals were the subject of much criticism, and . . . the scheme could not be approved. As a result the system of contributions remained unchanged, and the boards were left in the same unsatisfactory position as they were in before.

It seems clear, therefore, that *unless boards can be forced to impose the tax on circumstances and property and to raise the local rate, the future of district board finance depends mainly on the method adopted of distributing Government grants a subject which forms the first of our terms of reference.*

(b) We now turn to the second of our terms of reference and proceed to consider the most effective means of providing boards with the funds which they require

It is sometimes suggested that if all district boards were to impose the tax on circumstances and property, and raise a substantial local rate, their financial difficulties would disappear. It is only fair to the boards to point out that this is not the case. . . . We do not suggest that it is unnecessary for boards to impose these taxes ; on the contrary, *we hold strongly that such taxation is an urgent need and is rapidly becoming unavoidable.* But what we are here concerned to point out is that these taxes cannot, taken by themselves, provide more than a part of the extra income required for a full programme of expansion. . . .



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APPENDIX XII

Extracts from the "Report (Part II) of the Local Self-Government Committee" (1938)

The Municipalities Act provides a fairly exhaustive list of taxes. Since the passing of the Government of India Act, however, the position in respect of some of them has undergone a change. . . . To compensate the municipal boards for losses resulting from changes referred to above we have suggested the position of certain additional taxes, namely :

- | | |
|-----|---|
| (1) | a tax on luxuries including tax on entertainments, etc. |
| (2) | * * * * |
| (3) | * * * * |

As regards the first we consider that the *municipalities are at least equally entitled along with the Provincial Government to get a share of this tax*. In regard to entertainments and amusements particularly in many municipalities these are often spread over long periods during which the latter have to make special conservancy and other arrangements. There is no reason why the municipalities should not levy a tax for the services rendered by them in such cases.

37. The other sources of revenue we have suggested include--

Other sources of revenue of district and municipal boards.

(a) *a share out of the motor tax and petrol duty*. A growing amount of motor traffic, specially heavy traffic passes daily on district roads resulting in their quick deterioration. It is therefore, but reasonable that the boards should expect to be compensated out of the proceeds of the motor tax and petrol duty ;

(b) *a share out of the provincial revenues from court-fee and stamps*. Large revenues are derived by the Provincial Government under these heads from the general public residing in districts. It seems only fair that a portion of this income should be re-allocated to the districts for being spent on local needs ;

(c) *in the case of district boards fees to be prescribed for every mutation of name in the proprietary khewat*. This would be in the nature of succession duties. Although we would have preferred that such fees should be levied in the case of all properties we have had to confine ourselves to agricultural land only as succession to properties other than such land is a federal subject, *vide* item 56, Schedule VII, Government of India Act.